

**REPORT OF THE AUDIT OF THE
CALDWELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CALDWELL COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Caldwell County Fiscal Court for fiscal year ended June 30, 2010.

We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Caldwell County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$7,727,426 as of June 30, 2010. The fiscal court had unrestricted net assets of \$1,885,235 in its governmental activities as of June 30, 2010, with total net assets of \$7,670,397. In its business-type activities, total net cash and cash equivalents were \$54,079 with total net assets of \$57,029. The fiscal court had total bonds and financing obligations payable of \$2,485,246 as of June 30, 2010 with \$174,392 due within the next year.

Report Comments:

- 2010-01 Lack Of Adequate Internal Controls Over The Collection Of And Accounting For Occupational And Net Profits Taxes
- 2010-02 Lack Of Adequate Segregation Of Duties Over Revenues And Bank Reconciliations And Financial Statement Preparation
- 2010-03 The Fiscal Court Should Maintain An Accurate And Complete Schedule Of Capital Assets
- 2010-04 The Former Jailer Lacked Adequate Segregation Of Duties Over The Accounting Functions
- 2010-05 The Jailer Should Have Required Daily Deposits, All Disbursements Be Made By Check, And Inmate Fees And Telephone Commissions Be Remitted To The Treasurer Timely

Deposits:

The fiscal court's deposits were fully insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Brock Thomas, Caldwell County Judge/Executive
Members of the Caldwell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Caldwell County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Caldwell County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Caldwell County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Caldwell County, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
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Members of the Caldwell County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Caldwell County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 10, 2011 on our consideration of Caldwell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the following comments and recommendations, included herein, which discusses the following report comments:

- 2010-01 Lack Of Adequate Internal Controls Over The Collection Of And Accounting For Occupational And Net Profits Taxes
- 2010-02 Lack Of Adequate Segregation Of Duties Over Revenues And Bank Reconciliations And Financial Statement Preparation
- 2010-03 The Fiscal Court Should Maintain An Accurate And Complete Schedule Of Capital Assets
- 2010-04 The Former Jailer Lacked Adequate Segregation Of Duties Over The Accounting Functions
- 2010-05 The Jailer Should Have Required Daily Deposits, All Disbursements Be Made By Check, And Inmate Fees And Telephone Commissions Be Remitted To The Treasurer Timely

Respectfully Submitted,



Crit Luallen
Auditor of Public Accounts

May 10, 2011

CALDWELL COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Brock Thomas	County Judge/Executive
Elbert Bennett	Magistrate
Shirley B. Gray	Magistrate
Bobby Lewis	Magistrate
George B. Kilgore	Magistrate

Other Elected Officials:

James "Bridgie" Miller	County Attorney
Jim Blackburn	Jailer
Toni Watson	County Clerk
Stan Hudson	Sheriff
Ronald Wood	Property Valuation Administrator
Eddie Pennington	Coroner

Appointed Personnel:

Connie Cartwright	County Treasurer
Janie Kirk	Occupational Tax Collector
Betty Holt	Finance Officer
Wendall Lane	Road Supervisor
David Crenshaw	911 Administrator
Sandy Trusty	Jail Administrative Assistant

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CALDWELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

CALDWELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,885,235	\$ 54,079	\$ 1,939,314
Total Current Assets	1,885,235	54,079	1,939,314
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land	239,300		239,300
Land Improvements	182,386		182,386
Buildings	4,808,509		4,808,509
Vehicles and Equipment	889,835	2,950	892,785
Infrastructure	2,150,378		2,150,378
Total Noncurrent Assets	8,270,408	2,950	8,273,358
Total Assets	10,155,643	57,029	10,212,672
LIABILITIES			
Current Liabilities:			
Financing Obligations	64,392		64,392
Bonds Payable	110,000		110,000
Total Current Liabilities	174,392		174,392
Noncurrent Liabilities:			
Financing Obligations	225,854		225,854
Bonds Payable	2,085,000		2,085,000
Total Noncurrent Liabilities	2,310,854		2,310,854
Total Liabilities	2,485,246		2,485,246
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	5,785,162	2,950	5,788,112
Unrestricted	1,885,235	54,079	1,939,314
Total Net Assets	\$ 7,670,397	\$ 57,029	\$ 7,727,426

The accompanying notes are an integral part of the financial statements.

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CALDWELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

CALDWELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,583,953	\$ 58,183	\$ 691,257	
Protection to Persons and Property	965,742	195,992	612,726	10,084
General Health and Sanitation	235,711	1,551		
Social Services	7,519			
Recreation and Culture	113,623			
Roads	875,547		279,468	819,501
Interest on Long-Term Debt	196,717			
Total Governmental Activities	4,978,812	255,726	1,583,451	829,585
Business-type Activities:				
Jail Canteen	23,733	23,171		
Total Business-type Activities	23,733	23,171		
Total Primary Government	\$ 5,002,545	\$ 278,897	\$ 1,583,451	\$ 829,585

General Revenues:

Taxes:

Real Property Taxes

Hospital Bond Taxes

Occupational Taxes

Net Profit Taxes

Other Taxes

Telephone Commissions

In Lieu Of Tax

Excess Fees

Reimbursements

Miscellaneous Revenues

Interest Earned

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

CALDWELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,834,513)	\$	\$ (1,834,513)
(146,940)		(146,940)
(234,160)		(234,160)
(7,519)		(7,519)
(113,623)		(113,623)
223,422		223,422
(196,717)		(196,717)
(2,310,050)		(2,310,050)
	(562)	(562)
	(562)	(562)
(2,310,050)	(562)	(2,310,612)
325,189		325,189
289,936		289,936
1,110,659		1,110,659
217,730		217,730
263,888		263,888
11,133		11,133
88,061		88,061
271,146		271,146
33,728		33,728
26,178		26,178
2,422	62	2,484
2,640,070	62	2,640,132
330,020	(500)	329,520
7,340,377	57,529	7,397,906
\$ 7,670,397	\$ 57,029	\$ 7,727,426

The accompanying notes are an integral part of the financial statements.

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CALDWELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

CALDWELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
ASSETS				
Cash and Cash Equivalents	\$ 917,512	\$ 677,988	\$ 15,940	\$ 272,434
Total Assets	<u>917,512</u>	<u>677,988</u>	<u>15,940</u>	<u>272,434</u>
FUND BALANCES				
Reserved for:				
Encumbrances	4,315	11,215	8,355	124
Unreserved:				
General Fund	913,197			
Special Revenue Funds		666,773	7,585	272,310
Total Fund Balances	<u>\$ 917,512</u>	<u>\$ 677,988</u>	<u>\$ 15,940</u>	<u>\$ 272,434</u>

The accompanying notes are an integral part of the financial statements.

CALDWELL COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

(Continued)

Non- Major Funds	Total Governmental Funds
\$ 1,361	\$ 1,885,235
1,361	1,885,235
	24,009
	913,197
1,361	948,029
\$ 1,361	\$ 1,885,235

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,885,235
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported In The Funds.	11,275,474
Accumulated Depreciation	(3,005,066)
Is Not Reported In The Funds.	
Due In One Year - Bond and Financing Obligation Principal Payments	(174,392)
Due In More Than One Year - Bond and Financing Obligation Principal Payments	(2,310,854)
Net Assets Of Governmental Activities	\$ 7,670,397

The accompanying notes are an integral part of the financial statements.

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CALDWELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

CALDWELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 2,202,377	\$	\$	\$
In Lieu Tax Payments	88,060			
Excess Fees	66,116			
Licenses and Permits	8,787			34,854
Intergovernmental	350,410	1,415,420	190,307	332,278
Charges for Services	25,000		88,483	
Miscellaneous	63,252	9,214	11,851	1,551
Interest	916	726	101	641
Total Revenues	<u>2,804,918</u>	<u>1,425,360</u>	<u>290,742</u>	<u>369,324</u>
EXPENDITURES				
General Government	1,394,910			26,055
Protection to Persons and Property	59,568	3,274	463,346	130,000
General Health and Sanitation	106,461			75,907
Social Services	6,669			850
Recreation and Culture	106,600			
Roads		844,826		33,034
Debt Service	371,552			24,805
Administration	480,011	133,486	176,743	15,488
Total Expenditures	<u>2,525,771</u>	<u>981,586</u>	<u>640,089</u>	<u>306,139</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>279,147</u>	<u>443,774</u>	<u>(349,347)</u>	<u>63,185</u>
Other Financing Sources (Uses)				
Transfers From Other Funds			350,000	
Transfers To Other Funds	(533,340)			
Total Other Financing Sources (Uses)	<u>(533,340)</u>		<u>350,000</u>	
Net Change in Fund Balances	(254,193)	443,774	653	63,185
Fund Balances - Beginning (Restated)	<u>1,171,705</u>	<u>234,214</u>	<u>15,287</u>	<u>209,249</u>
Fund Balances - Ending	<u><u>\$ 917,512</u></u>	<u><u>\$ 677,988</u></u>	<u><u>\$ 15,940</u></u>	<u><u>\$ 272,434</u></u>

The accompanying notes are an integral part of the financial statements.

CALDWELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 6	\$ 2,202,383
	88,060
	66,116
	43,641
418,435	2,706,850
	113,483
10	85,878
37	2,421
<u>418,488</u>	<u>5,308,832</u>
300,000	1,720,965
301,787	957,975
	182,368
	7,519
	106,600
	877,860
	396,357
	805,728
<u>601,787</u>	<u>5,055,372</u>
<u>(183,299)</u>	<u>253,460</u>
183,340	533,340
	(533,340)
<u>183,340</u>	<u></u>
41	253,460
<u>1,320</u>	<u>1,631,775</u>
<u>\$ 1,361</u>	<u>\$ 1,885,235</u>

The accompanying notes are an integral part of the financial statements.

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**CALDWELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

CALDWELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 253,460
Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because:	
Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement of Activities The Costs Of Those Assets Are Allocated Over Their Estimated Useful Lives, And Are Reported As Depreciation Expense	
Capital Outlay	133,627
Infrastructure Outlay	150,471
Depreciation Expense	(407,178)
The Issuance Of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds, While Principal Payments Are Expenses In The Governmental Funds As A Use Of Current Financial Resources. These Transactions, However Have No Effect On Net Assets.	
Financing Obligations Principal Amount	94,640
Bonds Principal Amount	<u>105,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 330,020</u></u>

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CALDWELL COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2010

CALDWELL COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2010

	<u>Business-Type Activity -</u>
	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 54,079
Total Current Assets	<u>54,079</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	14,750
Less Accumulated Depreciation	<u>(11,800)</u>
Total Noncurrent Assets	<u>2,950</u>
Total Assets	<u>57,029</u>
Net Assets	
Invested in Capital Assets	2,950
Unrestricted	<u>54,079</u>
Total Net Assets	<u><u>\$ 57,029</u></u>

The accompanying notes are an integral part of the financial statements.

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CALDWELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

CALDWELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activity -
	Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 23,171
Total Operating Revenues	<u>23,171</u>
Operating Expenses	
Cost of Sales	14,285
Depreciation	2,950
Education and Recreational	6,435
Miscellaneous	<u>63</u>
Total Operating Expenses	<u>23,733</u>
Operating Income (Loss)	<u>(562)</u>
Nonoperating Revenues (Expenses)	
Interest Income	<u>62</u>
Total Nonoperating Revenues (Expenses)	<u>62</u>
Change In Net Assets	(500)
Total Net Assets - Beginning	<u>57,529</u>
Total Net Assets - Ending	<u><u>\$ 57,029</u></u>

The accompanying notes are an integral part of the financial statements.

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CALDWELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

CALDWELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	Business-Type Activity -
	Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Receipts From Canteen Sales	\$ 23,171
Cash Paid To Vendors For Goods And Services	(20,783)
Net Cash Provided By Operating Activities	<u>2,388</u>
Cash Flows From Investing Activities	
Interest Earned	<u>62</u>
Net Cash Provided By Investment Activities	<u>62</u>
Net Increase in Cash and Cash Equivalents	2,450
Cash and Cash Equivalents - July 1, 2009	<u>51,629</u>
Cash and Cash Equivalents - June 30, 2010	<u><u>\$ 54,079</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (562)
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities	
Depreciation Expense	<u>2,950</u>
Net Cash Provided By Operating Activities	<u><u>\$ 2,388</u></u>

The accompanying notes are an integral part of the financial statements.

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CALDWELL COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

CALDWELL COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	<u>Agency Fund</u> <u>Flexible</u> <u>Spending Account</u> <u>Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 8,676
Total Assets	<u>8,676</u>
Liabilities	
Amounts Held In Custody For Others	<u>8,676</u>
Total Liabilities	<u>8,676</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Caldwell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

C. Caldwell County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Caldwell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Caldwell County, Kentucky.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Caldwell County Elected Officials (Continued)

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or types (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The primary purpose of this fund is to account for the revenues distributed to Kentucky counties under KRS 42.455 and expenditures in compliance with this statute.

The primary government also has the following non-major funds: Grant Fund and Ambulance Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Grant Fund, and Ambulance Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Enterprise Fund:

The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major enterprise fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county reports one agency fund, a Flexible Spending Account Fund, which is used to account for monies held treasurer for custodial purposes only. Unlike other funds, agency funds report assets and liabilities only; therefore, they have no measurement focus.

E. Deposits and Investments

The government's cash and cash equivalents are generally considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land	\$ 1	
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Construction in Process	\$ 1	
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the General Obligation Bond Fund and the Public Properties Corporation Debt Service Fund. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

J. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Caldwell County Fiscal Court:

Pennyrile Emergency Assistance Center

The Caldwell County Fiscal Court has retained an ongoing financial responsibility for the Pennyrile Emergency Assistance Center. The Center is a joint venture between the Fiscal Court and The City of Princeton “to provide a centralized dispatch service for cooperative ambulance, fire, rescue, emergency, and law enforcement agencies” within the county and city. The Fiscal Court and the City of Princeton are each responsible for fifty percent of the basic administrative included in the budget of the Center. During the fiscal year 2010, the Fiscal Court paid \$52,500 to the Center.

Pennyrile Westpark Industrial Development Authority

The Caldwell County Fiscal Court has retained an ongoing financial responsibility for the Pennyrile Westpark Industrial Development Authority (PARK). The Pennyrile Westpark Industrial Development Authority is a joint venture between the Fiscal Court and the Counties of Crittenden, Livingston, Lyon, and Trigg “for the purpose of acquiring and developing land, marketing sites, and assisting and supporting tenants at the Park in order to stimulate and promote economic development in the jurisdictions” All parties are responsible for fifteen percent of the basic administrative included in the budget of the Park except for Lyon County, which is responsible for forty percent. During the fiscal year 2010, the Fiscal Court paid \$50,000 to the Park.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Jointly Governed Organizations

A jointly governed organization is a regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based upon these criteria, the Princeton-Caldwell County Industrial Development Authority and the City-County Park are considered to be jointly governed organizations of the Caldwell County Fiscal Court.

Note 2. Deposits and Investments

A. Deposits

The primary government and its component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

As of June 30, 2010, the County had the following investments, which are included in cash and cash equivalents:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value (Cost)</u>
Certificates of Deposit	Greater than 90 days	\$500,000

Interest Rate Risk

The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, non-negotiable certificates of deposit are not subject to interest rate risk.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments

Credit Risk

KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government; certificates of deposit issued by or other interest bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity; uncollateralized certificates of deposit issued by a bank or savings and loan institutions rated in one of the three highest categories by a nationally recognized rating agency; bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; securities issued by a state or local government, or any instrumentality of agency, thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency; and shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of four specifically named investments as allowed by KRS 66.480. Certificates of deposit are not considered a limited investment per KRS 66.480. The County had no investments policy that would further limit its investment choices. In general, non-negotiable certificates of deposit are not subject to investment credit risk.

Custodial Credit Risk-Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. The County's certificate of deposit is included in the custodial credit risk note disclosure for deposits.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 239,300		\$	\$ 239,300
Total Capital Assets Not Being Depreciated	239,300			239,300
Capital Assets, Being Depreciated:				
Land Improvements	227,522			227,522
Buildings	6,046,738			6,046,738
Vehicles and Equipment	1,985,426	133,627		2,119,053
Infrastructure	2,492,390	150,471		2,642,861
Total Capital Assets Being Depreciated	10,752,076	284,098		11,036,174
Less Accumulated Depreciation For:				
Land Improvements	(37,513)	(7,623)		(45,136)
Buildings	(1,119,266)	(118,963)		(1,238,229)
Vehicles and Equipment	(1,076,281)	(152,937)		(1,229,218)
Infrastructure	(364,828)	(127,655)		(492,483)
Total Accumulated Depreciation	(2,597,888)	(407,178)		(3,005,066)
Total Capital Assets, Being Depreciated, Net	8,154,188	(123,080)		8,031,108
Governmental Activities Capital Assets, Net	<u>\$ 8,393,488</u>	<u>\$ (123,080)</u>	<u>\$ 0</u>	<u>\$ 8,270,408</u>
<u>Business Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 14,750	\$	\$	\$ 14,750
Total Capital Assets Being Depreciated	14,750			14,750
Less Accumulated Depreciation For:				
Vehicles and Equipment	(8,850)	(2,950)		(11,800)
Total Accumulated Depreciation	(8,850)	(2,950)		(11,800)
Business Type Activities Capital Assets, Net	<u>\$ 5,900</u>	<u>\$ (2,950)</u>	<u>\$ 0</u>	<u>\$ 2,950</u>

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 63,905
Protection to Persons and Property	79,942
Health and Sanitation	53,343
Recreation and Culture	7,023
Roads	202,965
Total Depreciation Expense - Governmental Activities	<u>\$ 407,178</u>

Business Type Activities:

Jail Canteen	<u>\$ 2,950</u>
Total Depreciation Expense - Business Type Activities	<u>\$ 2,950</u>

Note 4. Long-term Debt

A. General Obligations Refunding Bonds, Series 1999 (Hospital Revenue Bonds)

The fiscal court issued series 1999 bonds in the amount of \$3,175,000 for the purpose of refunding Series 1996 bonds. Interest on the bonds is payable each January and July 1, beginning January 1, 2000. These bonds were issued in principal amounts of \$5,000 and integral multiples thereof and mature at various dates beginning January 1, 2000 through January 1, 2024. The bonds are subject to redemption prior to maturity. Bonds and interest outstanding as of June 30, 2010 are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 110,000	\$ 115,960
2012	115,000	110,185
2013	120,000	104,148
2014	130,000	97,847
2015	135,000	91,023
2016-2020	785,000	341,250
2021-2023	800,000	108,650
Totals	<u>\$ 2,195,000</u>	<u>\$ 969,063</u>

B. Ambulance Service Building

The Caldwell County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the construction of an ambulance building for \$300,000. The terms of the lease agreement are 15 annual principal payments and monthly interest payments at an interest rate of 5.698%. The Fiscal Court was in compliance with the terms of the agreement as of June 30, 2010. Future lease principal and interest requirements are:

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

B. Ambulance Service Building (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 26,000	\$ 967
Totals	<u>\$ 26,000</u>	<u>\$ 967</u>

C. Jail Facility

The Caldwell County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the cost of renovation to the Jail Facility for \$300,000. The terms of the lease agreement are monthly principal and interest payments at an interest rate of 4.189% for a ten year period. The Fiscal Court was in compliance with the terms of the agreement as of June 30, 2010. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 26,056	\$ 10,277
2012	27,358	9,354
2013	28,724	8,159
2014	30,159	6,918
2015	31,666	5,613
2016-2019	<u>107,947</u>	<u>8,398</u>
Totals	<u>\$ 251,910</u>	<u>\$ 48,719</u>

D. Rescue Truck

The Caldwell County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) for the purchase of a rescue truck for \$110,000. The terms of the lease agreement are 5 annual principal payments and monthly interest payments at an interest rate of 4.837%. The fiscal court was in compliance with the terms of the agreement as of June 30, 2010. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 12,336	\$ 262
Totals	<u>\$ 12,336</u>	<u>\$ 262</u>

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 2,300,000	\$	\$ 105,000	\$ 2,195,000	\$ 110,000
Financing Obligations	384,886		94,640	290,246	64,392
Governmental Activities					
Long-term Liabilities	<u>\$ 2,684,886</u>	<u>\$ 0</u>	<u>\$ 199,640</u>	<u>\$ 2,485,246</u>	<u>\$ 174,392</u>

Note 5. Interest On Long-Term Debt

Interest on Long-Term Debt on the Statement of Activities includes \$121,400 in interest on financing obligations and general obligation bonds.

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information illustrating the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

In March 1997, the Caldwell County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 7. Deferred Compensation (Continued)

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information illustrating the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2010, Caldwell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

A. Net Assets Beginning Balance For Governmental Activities

The prior year net asset ending balance for governmental activities has been restated for the following:

	<u>Governmental Activities</u>	
Net Assets Ending Balance Prior Year	\$ 7,340,202	
Plus:		
General Fund Prior Year Voided Checks	\$	136
LGEA Fund Prior Year Voided Checks		39
Rounding Error-Cash		(1)
Rounding Error-Capital Assets		1
		<u>175</u>
Net Assets Beginning Balance - Restated	<u>\$ 7,340,377</u>	

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010
(Continued)

Note 9. Prior Period Adjustments (Continued)

B. Beginning Fund Balances

The prior year ending fund balances have been restated for the following:

		Governmental Funds
Ending Fund Balance Prior Year		\$ 1,631,601
Plus:		
General Fund Prior Year Voided Checks	\$ 136	
LGEA Fund Prior Year Voided Checks	39	
Rounding Error	(1)	174
		<u>\$ 1,631,775</u>

Note 10. Subsequent Events

A. Series 2010 General Obligation Refunding Bonds

In December 2010, the Caldwell County Fiscal Court issued General Obligation Refunding Bonds, series 2010 in the amount of \$1,550,000. The proceeds of the bond issuance are to be used to retire the outstanding portion of the Series 1999 General Obligation Refunding Bonds.

B. Hospital Taxing District Accounts

In December 2010, the Caldwell County Hospital Board relinquished control of the Taxing Districts Debt Service Accounts to the Caldwell County Fiscal Court. Hospital Taxing District revenues are deposited into this account and will be used to pay the Series 2010 General Obligation Refunding Bonds.

CALDWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

CALDWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,923,450	\$ 1,923,450	\$ 2,202,377	\$ 278,927
In Lieu Tax Payments	53,880	92,714	88,060	(4,654)
Excess Fees	36,275	36,275	66,116	29,841
Licenses and Permits	8,200	8,200	8,787	587
Intergovernmental Revenue	386,265	386,265	350,410	(35,855)
Charges for Services	25,000	25,000	25,000	
Miscellaneous	21,901	26,525	63,252	36,727
Interest	3,800	3,800	916	(2,884)
Total Revenues	2,458,771	2,502,229	2,804,918	302,689
EXPENDITURES				
General Government	1,302,919	1,687,529	1,394,910	292,619
Protection to Persons and Property	55,051	67,405	59,568	7,837
General Health and Sanitation	67,282	109,472	106,461	3,011
Social Services	9,900	11,500	6,669	4,831
Recreation and Culture	96,500	115,860	106,600	9,260
Airports	5,000	5,000		5,000
Debt Service	385,966	373,579	371,552	2,027
Capital Projects	10,100	10,100		10,100
Administration	526,696	502,868	480,011	22,857
Total Expenditures	2,459,414	2,883,313	2,525,771	357,542
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(643)	(381,084)	279,147	660,231
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds	(533,340)	(533,340)	(533,340)	
Total Other Financing Sources (Uses)	(533,340)	(533,340)	(533,340)	
Net Changes in Fund Balance	(533,983)	(914,424)	(254,193)	660,231
Fund Balance - Beginning	533,983	903,983	1,171,705	267,722
Fund Balance - Ending	\$ 0	\$ (10,441)	\$ 917,512	\$ 927,953

CALDWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts,	Final Budget
			(Budgetary	Positive
			Basis)	(Negative)
REVENUES				
Intergovernmental Revenue	\$ 968,657	\$ 1,217,589	\$ 1,415,420	\$ 197,831
Miscellaneous	1,500	1,500	9,214	7,714
Interest	6,000	6,000	726	(5,274)
Total Revenues	976,157	1,225,089	1,425,360	200,271
EXPENDITURES				
Protection to Persons and Property		3,274	3,274	
Roads	1,198,675	1,271,796	844,826	426,970
Administration	201,700	363,796	133,486	230,310
Total Expenditures	1,400,375	1,638,866	981,586	657,280
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(424,218)	(413,777)	443,774	857,551
Net Changes in Fund Balance	(424,218)	(413,777)	443,774	857,551
Fund Balance - Beginning	424,218	424,218	234,214	(190,004)
Fund Balance - Ending	\$ 0	\$ 10,441	\$ 677,988	\$ 667,547

CALDWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 195,600	\$ 195,600	\$ 190,307	\$ (5,293)
Charges for Services	82,000	82,000	88,483	6,483
Miscellaneous	9,700	9,700	11,851	2,151
Interest	250	250	101	(149)
Total Revenues	287,550	287,550	290,742	3,192
EXPENDITURES				
Protection to Persons and Property	481,959	483,632	463,346	20,286
Administration	181,661	179,988	176,743	3,245
Total Expenditures	663,620	663,620	640,089	23,531
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	(376,070)	(376,070)	(349,347)	26,723
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	350,000	350,000	350,000	
Total Other Financing Sources (Uses)	350,000	350,000	350,000	
Net Changes in Fund Balance	(26,070)	(26,070)	653	26,723
Fund Balance - Beginning	26,070	26,070	15,287	(10,783)
Fund Balance - Ending	\$ 0	\$ 0	\$ 15,940	\$ 15,940

CALDWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Licenses and Permits	\$ 54,000	\$ 54,000	\$ 34,854	\$ (19,146)
Intergovernmental Revenue	290,000	309,533	332,278	22,745
Miscellaneous	2,700	2,700	1,551	(1,149)
Interest	500	500	641	141
Total Revenues	347,200	366,733	369,324	2,591
EXPENDITURES				
General Government	29,288	29,727	26,055	3,672
Protection to Persons and Property	134,500	134,500	130,000	4,500
General Health and Sanitation	57,670	94,763	75,907	18,856
Social Services	2,000	2,000	850	1,150
Roads	30,000	33,034	33,034	
Debt Service	24,832	24,832	24,805	27
Administration	85,820	64,787	15,488	49,299
Total Expenditures	364,110	383,643	306,139	77,504
Excess (Deficiency) of Revenues Over				
Expenditures before Other				
Financing Sources (Uses)	(16,910)	(16,910)	63,185	80,095
Net Changes in Fund Balances	(16,910)	(16,910)	63,185	80,095
Fund Balances - Beginning	16,910	16,910	209,249	192,339
Fund Balances - Ending	\$ 0	\$ 0	\$ 272,434	\$ 272,434

CALDWELL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**CALDWELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2010

CALDWELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

	Grant Fund	Ambulance Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 10	\$ 1,351	\$ 1,361
Total Assets	<u>10</u>	<u>1,351</u>	<u>1,361</u>
FUND BALANCES			
Unreserved:			
Special Revenue Funds	<u>10</u>	<u>1,351</u>	<u>1,361</u>
Total Fund Balances	<u>\$ 10</u>	<u>\$ 1,351</u>	<u>\$ 1,361</u>

The accompanying notes are an integral part of this financial statement.

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CALDWELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010

CALDWELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2010

	Grant Fund	Ambulance Fund	Total Non-Major Governmental Funds
REVENUES			
Taxes	\$	\$ 6	\$ 6
Intergovernmental	300,000	118,435	418,435
Miscellaneous	10		10
Interest		37	37
	<u>300,010</u>	<u>118,478</u>	<u>418,488</u>
EXPENDITURES			
General Government	300,000		300,000
Protection to Persons and Property		301,787	301,787
	<u>300,000</u>	<u>301,787</u>	<u>601,787</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>10</u>	<u>(183,309)</u>	<u>(183,299)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds		183,340	183,340
Total Other Financing Sources (Uses)		<u>183,340</u>	<u>183,340</u>
Net Change in Fund Balances	10	31	41
Fund Balances - Beginning		1,320	1,320
Fund Balances - Ending	<u>\$ 10</u>	<u>\$ 1,351</u>	<u>\$ 1,361</u>

The accompanying notes are an integral part of this financial statement.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Brock Thomas, Caldwell County Judge/Executive
Members of the Caldwell County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Caldwell County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, listed in the table of contents and have issued our report thereon dated May 10, 2011. Caldwell County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Caldwell County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Caldwell County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Caldwell County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2010-01, 2010-02, 2010-03 and 2010-04 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Caldwell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2010-05.

Management's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 10, 2011

CALDWELL COUNTY
COMMENTS AND RECOMMENDATIONS

For the Year Ended June 30, 2010

**CALDWELL COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2010

INTERNAL CONTROL - MATERIAL WEAKNESSES

2010-01 Lack Of Adequate Internal Controls Over The Collection Of And Accounting For Occupational And Net Profits Taxes

During testing of occupational and net profit taxes, we noted that no occupational tax subsidiary ledger was maintained, there were missing tax returns for two employers, documentation of when tax returns were received is inconsistent, some returns are dated several weeks prior to the deposit date, tax returns are not processed daily, delinquent net profit and occupational taxes are not maintained nor are the delinquent taxes collected. The occupational tax administrator maintains all occupational and net profit tax records, prepares deposits, and posts receipts with no one else reviewing tax collections or postings. When the occupational tax administrator is absent, deposits are not made nor are returns processed. We viewed a large amount of unprocessed returns that were left locked in the occupational tax administrator's office. The control deficiency described above is considered to be significant and material.

We recommend tax forms be stamped with the date received, attached to envelopes received in, occupational tax ledger be maintained and printed at year end, occupational tax payer files should be updated, deposits be made daily, occupational tax returns be processed when received, and collection of delinquent taxes be attempted. Someone independent of the occupational tax office should prepare a mail receipts listing. These processes should be reviewed by someone other than the occupational tax administrator and the review should be documented.

County Judge/Executive Brock Thomas' Response: We will review our procedures and implement a mail receipt system.

2010-02 Lack Of Adequate Segregation Of Duties Over Revenues And Bank Reconciliations And Financial Statement Preparation

During testing we noted that there is a lack of segregation of duties over revenues and bank reconciliations. The treasurer performs all accounting functions over cash and receives, posts, and reconciles revenues as well as prepares the quarterly financial statements. There were no documented compensating controls to offset the lack of segregation of duties or reduce the deficiency to less than significant level. We recommend the fiscal court implement the following compensating internal controls.

1. Have someone independent of the treasurer's office review and re-compute the bank reconciliation. Outstanding items should be reviewed. The review/re-computation should be documented.
2. Have someone independent of the treasurer's office prepare a mail receipts listing.
3. Have someone independent of the treasurer's office compare receipts listing to the daily check out sheets to the receipts ledger to determine all receipts are properly accounted for. The review should be documented.
4. Have someone independent of the treasurer's office trace balances on the quarterly reports to the general ledger in order to validate amounts reported on the financial statements. This process should be documented.

County Judge/Executive Brock Thomas' Response: The Fiscal Court will review this recommendation and develop a plan to address this issue.

CALDWELL COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued):

2010-03 The Fiscal Court Should Maintain An Accurate And Complete Schedule Of Capital Assets

During testing we noted that capital asset schedules had not been updated for additions, deletions, or current year depreciation. We recommend the County develop and implement a system to include additions that meet the capitalization threshold, and to remove retirements/disposals of capital assets from the capital assets schedules throughout the year. Current year depreciation should be computed for all assets. Capital assets should be properly included on the County's insurance policy. These schedules should be verified by someone other than the person who prepared the schedules.

County Judge/Executive Brock Thomas' Response: We have a system that has been implemented.

2010-04 The Former Jailer Lacked Adequate Segregation Of Duties Over The Accounting Functions

A lack of segregation of duties existed over the accounting functions at the Caldwell County Jail. One employee collected inmate fees, prepared deposits, made deposits, prepared monthly reports, remitted monthly reports along with inmate fees to the county treasurer, reconciled the bank account and made payments from the bank account. There were no compensating controls implemented that would offset the lack of segregation of duties. The former Jailer should have segregated duties or implemented the following compensating controls:

- The Jailer should have periodically compared the daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. The Jailer could have documented this by initialing the bank deposit, daily checkout sheet, and receipts ledger for the day checked.
- The Jailer should have compared the monthly, quarterly, and annual financial reports to receipts and disbursements ledgers for accuracy. Any differences should have been reconciled. The Jailer could have documented this by initialing the receipts and disbursements ledgers or denoting the comparison on the financial reports.
- The Jailer should have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. The Jailer could have documented this by initialing the bank reconciliation and the balance in the checkbook

Former Jailer Jim Blackburn's Response: No Response.

County Judge/Executive Brock Thomas' Response: I will discuss with the current Jailer for future compliance.

CALDWELL COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2010
(Continued)

STATE LAWS AND REGULATIONS

2010-05 The Jailer Should Have Required Daily Deposits, All Disbursements Be Made By Check, And
 Inmate Fees And Telephone Commissions Be Remitted To The Treasurer Timely

During testing of Jail Commissary records, we noted deposits were not made daily. Inmates' monies were kept in a lock box and given back to them in the form of cash rather than properly depositing the inmate funds and disbursing the monies by check. Inmate fees are paid to the treasurer in cash. Inmate fees and telephone commissions were held and not remitted to the treasurer in a timely manner.

Jail Commissary Fund Instructions issued by the Department for Local Government require daily deposits and all disbursements be made by check as part of the minimum accounting requirements for the Jail Commissary as prescribed by KRS 68.210.

The Jailer should have required receipts be deposited daily and all disbursements be made by check in order to be in compliance with the minimum accounting standards as prescribed by KRS 68.210. The Jailer should have required inmate fees and telephone commissions be remitted to the county treasurer by check in a timely manner.

Former Jailer Jim Blackburn's Response: No Response.

County Judge/Executive Brock Thomas' Response: I will discuss with the current Jailer for future compliance.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CALDWELL COUNTY FISCAL COURT

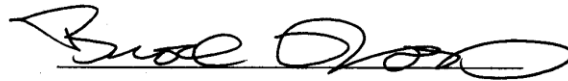
**For The Fiscal Year Ended
June 30, 2010**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CALDWELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

The Caldwell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

